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C O N F I D E N T I A L SECTION 01 OF 04 NICOSIA 000476

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SUBJECT: BUMPY START TO EU AID FOR TURKISH CYPRIOTS

REF: A. NICOSIA 273  
[1](#)B. LIBBY-SILLIMAN-ETC EMAIL (12/07/2005)  
[1](#)C. LIBBY-INGMANSON-ETC EMAIL (12/13/2005)  
[1](#)D. NICOSIA SIPRNET DAILY REPORT (3/21/06)  
[1](#)E. ZIMMERMAN-INGMANSON-ETC EMAIL (3/28/2006)

Classified By: Ambassador Ronald Schlicher, for reasons 1.4 (b) and (d)

[1](#)1. (C) SUMMARY. With the long-awaited EU aid package for the Turkish Cypriots finally approved, the European Commission and Turkish Cypriots have begun negotiating over project priorities and sensitive details of implementation. The question of whether the EU's aid office will be located in the north or south is the first politically charged issue the Commission must address -- although other contentious logistical questions are sure to arise as the EU's aid moves forward. The Turkish Cypriots hope that an April 4 meeting between DG Enlargement's Michael Leigh and "President" Talat will set a positive tone for future efforts to untangle such issues. The Turkish Cypriots are nonetheless worried that EU aid will be funneled through the ROC or subject to Greek Cypriot political conditions, which they fear would render the assistance economically useless and politically impossible for the "TRNC" to accept. "President" Talat has, for the moment, silenced quibbling between "TRNC government" coalition partners over whether to accept EU aid, reasserting his policy of consultation with the Commission and not blocking project implementation for now. The Commission, anxious to reverse Turkish Cypriot perceptions that the EU does not keep its promises, has focused on high-visibility, quick-start projects -- often without careful forethought, adequate intelligence about the political context in which they operate, or meaningful coordination with USAID's up-and-running CyPEG. At the same time the politically-paranoid Turkish Cypriots may pose obstacles of their own, as in some cases the "TRNC" in its goal to avoid letting the ROC score points is capable of taking measures that amount to economic "self-isolation." Haphazard planning, Greek Cypriot shenanigans, and Turkish Cypriot political twitchiness pose a real danger to the effectiveness of EU aid to the Turkish Cypriots. END SUMMARY.

EU PROJECT PLANNING BEGINS

[1](#)2. (C) The EU approved its long-awaited 139 million euro assistance package for the Turkish Cypriots in February (ref a). (COMMENT: The package had been valued at 259 million euros when it was proposed immediately following the Turkish Cypriot "yes" vote in the 2004 Annan Plan Referendum. But a drawn-out tug-of-war between the ROC, the UK, and the Turkish Cypriots over whether it should be "delinked" from an EU direct-trade proposal -- among other things -- resulted in 120 million of the aid being lost as the budget cycle advanced. END COMMENT.) With aid now authorized, the Cyprus team at DG Enlargement, which handles north Cyprus matters in the Commission, visited the island twice in March to begin

negotiating both the technical and political aspects of program implementation.

13. (C) According to the EC team, as well as Turkish Cypriot sources, the EU's aid program will focus on five general priorities: economic and social development, rural development (to include projects relating to the environment and infrastructure), bicomunal reconciliation (including preservation of cultural heritage), technical assistance, and scholarship. The Commission's team expressed a clear preference for quick-start programs that would be ready for approval by the Phare Committee (which oversees EU aid and consists of representatives from the member states, including the ROC) by June. According to Turkish Cypriot sources, the Commission's team was "frantic" to "show the flag" in the north and was planning to spend as much as 25 million euros on quick-impact projects that would counter the perception that Europe had not "kept its promises" to the Turkish Cypriots.

#### NEGOTIATING POLITICAL LAND MINES

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14. (C) Before aid can start flowing, however, a large number of practical questions -- including several with potentially serious political implications -- need to be worked out. The first is the question of where the Commission's aid office will be located. The ROC has insisted that the office be in the "areas controlled by the legitimate government" (i.e., in the south), while the Turkish Cypriots recoil at the idea of their aid being "channeled through the Greek Cypriots." They would like the EC to follow the example of USAID, which has insisted that its contractors open robust "service centers" north of the Green Line (on undisputed Turkish Cypriot

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property). The Commission appears to be quietly seeking a compromise and has floated the idea of hanging a shingle in the south, perhaps by simply opening a PO box, but operating a proper office (having a "presence") in the north.

15. (C) It is far from clear that this compromise would meet the requirements of both sides. But the "TRNC's" lead EU expert, Erhan Ercin, nonetheless gives the EC team credit for trying to find a middle ground. Ercin had similar praise for the Commission's apparent willingness to allocate aid funds via HSBC Bank in the north, rather than through the Cyprus Central Bank in the south -- the apparent preference of the GOC. Ercin acknowledged that there would be "countless other" technical issues to work out in the future, but suggested that, if the Commission maintained its "newly constructive attitude" and continued to "show backbone against Greek Cypriot demands," such problems could be resolved.

16. (C) This cautious praise for the EC is a remarkable change of tone for the Turkish Cypriots, who until very recently were furious at the Commission for agreeing, in December, to issue an "unacceptable" declaration as the price for ROC approval of EU aid (ref b). Although the EC later backed down amid howls of protest from Talat (and, more quietly, from the UK), there was nonetheless significant damage to their relationship with the Turkish Cypriots (ref c). Since then, Ercin noted to us with some satisfaction, Leopold Maurer (whom the Turkish Cypriots blame for December's near train-wreck) has since been assigned to Kosovo. His acting replacement, Georg Ziegler, was much more "constructive." Ercin also told us that DG Enlargement's #2, Michael Leigh, would visit Cyprus on April 4 and meet with Talat (in the latter's office). Ercin hoped Leigh's visit would produce a "final and acceptable" agreement on the issue of office location -- and mark a definitive turn-around in the political atmosphere between Turkish Cypriots and the Commission.

STILL NO RED CARPET UP NORTH

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¶7. (C) Erčin's rosy-ish assessment of Turkish Cypriots-EC relations, however, has not translated into smooth political sailing for the EU's aid package up north. Many Turkish Cypriots feel that EU aid to develop their economy is useless without the corresponding "direct trade" package that the EU proposed, but then failed to approve, after the 2004 Annan Plan Referendum. As one commentator put it, EU aid is a "moldy half loaf" instead of a full and nutritious meal. For this reason, Turkish Cypriots were dead-set against decoupling the trade and aid measures. Passing aid alone, they feared, would create the impression that the EU had kept its promises to help Turkish Cypriots, thus making it easier to shelve direct trade for good.

¶8. (C) Now that aid is in the pipeline, Turkish Cypriot public opinion has focused its worry on questions of implementation. Most observers assume that the "Greek Cypriot administration" will use its sway as an EU member state to ensure that aid is either stymied or frittered away on projects not directly beneficial to the Turkish Cypriot economy. Informed experts share this worry. They note, for example, that Greek Cypriot stipulations about respecting property rights could severely limit development assistance by blocking projects supporting economic activity that takes place on Greek Cypriot land (which amounts to at least 80 percent of all the land in the north). This belief -- compounded with the general sense that the aid is somehow going to be "funneled through the south" -- has caused significant public opposition to "accepting" European aid.

¶9. (C) Serdar Denktash, the nationalist "FM" who is the uneasy coalition partner of Talat's ruling CTP, has led the charge against EU aid. Threatening at one point to bring down the "government" over the issue, Serdar was only walked back from the edge after Talat took him to the woodshed in a closed-door meeting last week (refs a and d). Calmer voices, including respected members of the business community, have echoed Serdar's call that the "TRNC" should reject EU aid. Perhaps most significantly, Turkey is rumored to be pressing Talat to block implementation of EU aid -- something the local Turkish Ambassador tacitly admitted to Ambassador Schlicher on March 14, even as he said that the Turkish Cypriot authorities had made their own, contrary decision on the matter.

¶10. (C) Despite this pressure, however, Talat has directed "TRNC" officials not to block aid, but to cooperate with the Commission's aid team. "PM" Soyer has reassured the public, on behalf of Talat, that EU programs will help build institutional ties between the Turkish Cypriots and Europe

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that could prove more valuable than the aid itself over the long term. Privately, advisors close to Talat have told us that "the president" did not want to be painted as a nay-sayer by refusing EU aid outright. But they nonetheless stress that Talat will constantly reassess his position on aid if too many "unacceptable" restrictions and/or political conditions are "imposed" by the GOC.

WILL IT WORK?  
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¶11. (C) The question of whether Turkish Cypriot authorities will accept EU aid is a bit misleading, since the Commission is not planning to write checks directly to the "TRNC." Nonetheless, the Turkish Cypriot political leaders can make or break the program by granting -- or withholding -- their cooperation with implementers. At the logistical level, there is a range of options at the "TRNC's" disposal (such as demanding VAT payments, slow-rolling phone installation, or denying entry to implementers) should they decide the political cost of accepting EU aid is too high.

¶12. (C) Unfortunately, the Turkish Cypriots are more than willing to shoot themselves in the economic foot to make a perceived or symbolic political point. For example, this week "TRNC" officials appear to have used indirect pressure on the Chamber of Commerce and a "state"-owned fruit packing company to derail a deal to export citrus through the south (ref e). This maneuver was the result of a misguided political fear that allowing exports through Limassol -- however profitable this might be for their businessmen -- would undermine the political argument for direct trade with the EU. We have strongly counseled the "TRNC" that, even as we seek to find ways to end Turkish Cypriot isolation, they in no instance should take action that damages existing opportunities and can be styled as "self-isolation." It is reasonable to expect the Greek Cypriots to try to exploit this self-destructive instinct by kicking up a fuss (over office location, for example), goading the Turkish Cypriots into saying "no" to European aid, and watching with glee as Europe curses Talat's intransigence.

¶13. (C) At the same time, serious questions remain about the ability of the EC Cyprus team to manage its aid program effectively. As one Turkish Cypriot reminded us, the EC has a startlingly bad understanding of Turkish Cypriot political dynamics. Referring to the Commission's point-man on the Turkish Cypriots (who lodges in the south, spends significant time in Brussels, and speaks no Turkish) he noted that the EU's only consistent presence in the north consisted of nothing more than a "single Italian in a car." It is hardly surprising that the Commission has repeatedly rammed blindly into Turkish Cypriot political redlines as it tried to secure approval of aid last year.

¶14. (C) The Commission also seems instinctively resistant to cooperation with USAID -- refusing, for example, to share with us a World Bank study they commissioned on the north's economy and withholding for over a year the results of their feasibility studies in important areas such as water, waste water, energy, rural development, and solid waste. This attitude appears to stem, at least in part, from a rather territorial belief that, since Cyprus is a European country, the U.S. should butt out. As a result, the Commission team here consistently rebuffs our offers to discuss potential areas of coordination and deconfliction between our assistance programs. This attitude sometimes borders on the surreal, with Commission officials bickering over our use of the word "Partnership" in the CyPEG acronym (on the grounds that the EU's "Partnership for the Future" program had already appropriated the term). Once, Commission representatives even forbade their contractors to join a Turkish Cypriot-led meeting on environmental priorities because AID staff were also present.

¶15. (C) In their rush to spend money and make a quick public splash, the EU seems to have compromised the quality of their program management and implementation. Despite the managerial and political ineptitude of their local team, the EU has indicated they will likely use the existing Partnership for the Future as the delivery mechanism for most -- if not all -- of their initial assistance package. Past performance suggests this preference for convenience and speed could have serious consequences. In one case, a PFF-funded restoration project in Famagusta was put on such a tight deadline that Turkish Cypriot municipal authorities had to choose between losing EU funding for a restoration project or settling on quickly-available contractors whose lack of expertise threatened to damage the medieval structure that they were trying to protect. This does not bode well for successful (or Turkish Cypriot-friendly) quick-start programs in the future.

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COMMENT  
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¶16. (C) The EU's aid program is probably too little, too late to reverse the Turkish Cypriot perception that "Europe" has abandoned them. At the same time, hasty planning and poor coordination will probably dilute the impact of the EU's assistance efforts. Meanwhile, Turkish Cypriot twitchiness, coupled with the inevitable Greek Cypriot shenanigans, could mean that EU aid will ultimately amount to little more than an arena for more childish political games. We will seek to forestall this possibility here through pressing for more and better coordination and deconfliction of projects and priorities. At appropriate points, we will ask our colleagues in Brussels and appropriate EU capitals to echo this message when needed. END COMMENT.  
SCHLICHER